

ALTERNATIVE-REGULATION PLAN

This Alternative Regulation Plan ("Plan") is established pursuant to 30 V.S.A. § 218d. The Plan establishes the method by which the Public Service Board (the "PSB") will regulate the rates charged for all jurisdictional products and services offered by Vermont Gas Systems, Inc. ("VGS" or the "Company"), during the term of the Plan.

1. Term of the Plan.

- a. The Plan will commence on July 1, 2006, and have a term that will expire on November 1, 2009, unless extended under Paragraph 1b of this Plan.
- b. The Department of Public Service (the "DPS") and the Company may, individually or jointly, request that the Board extend the Plan for up to two, successive two-year terms, but the Plan as extended may not continue in effect after October 31, 2013.
- c. Not less than ten months prior to the Plan's conclusion, VGS will convey to the Board and Department the Company's intention regarding a successor plan, if any.

2. Regulatory Framework.

- a. Sections 218(a), 225, 226, 227 and 229 of Title 30 will continue to apply except as specified herein and in the Order in Docket No. _____ approving the Plan.
- b. The objective of this Plan is to regulate VGS' rates as provided herein rather than through litigated, cost-of-service ("COS") investigation, even though the Company's rates will still be based on its COS.

3. Cost of Service.

- a. VGS shall be entitled under this Plan to have rates set based on the revenue required to recover its COS calculated in accordance with traditional ratemaking principles applied by the PSB, except that the Company's earnings shall be determined and shared in accordance with the "Earnings Sharing Mechanism" ("ESM") attached to this Plan as Attachment 1 and the Company shall be entitled to recover its gas costs in accordance with a "Purchased Gas Adjustment" clause (the "PGA") attached hereto as Attachment 2.
 - b. Within thirty (30) days of this Plan's approval, the Company shall file amendments to its tariffs to implement this Plan, such amendments to specifically include provisions implementing the ESM and the PGA.
 - c. Such tariff amendments shall also unbundle the gas costs charged to firm customers to include the daily access charge, gas cost per CCF charge and distribution charge per CCF.
 - d. Thereafter, the gas charge provision of the Company's rates will be adjusted monthly in accordance with the PGA and annually in accordance with the ESM, as provided therein and in Paragraphs 4 and 5 of this Plan.
4. Monthly PGA Adjustments.
- a. Monthly no later than the 5th-to-last business day of the month, VGS shall notify the PSB and DPS of the PGA adjustment to be made commencing on the first day of the month beginning two months forward. For example, if VGS notifies the PSB and DPS on August 24, the adjustment shall be effective on October 1.

- b. The adjustment shall take effect on a service-rendered basis and be effective on the first day of the month two months forward.
 - c. Nothing in this Plan will be interpreted as preventing the DPS from asking the PSB to investigate or the PSB from investigating the prudence of the gas costs charged to VGS customers under the PGA.
5. Annual Rate Adjustments.
- a. Annually no later than November 15, VGS shall notify the DPS and PSB of an increase or decrease in its rates (if any) charged to firm customers to reflect the changes to VGS's rates determined in accordance with Paragraph 3 of this Plan (the "Annual Notice").
 - b. With this Annual Notice, VGS shall provide the DPS and the PSB with compliance tariff sheets accompanied by documentation supporting the change.
 - c. VGS shall give individual notice to customers of each annual rate adjustment.
 - d. In the absence of PSB orders to the contrary, the adjustment specified in the Annual Notice will be considered approved by the PSB but no earlier than thirty (30) days after providing such Annual Notice.
 - e. The Adjustment shall take effect on a service-rendered basis and be effective for service rendered no earlier than thirty (30) days after VGS provides such Annual Notice to the PSB and DPS.
 - f. Nothing in this Plan shall be interpreted as preventing the DPS from asking the PSB to investigate or the PSB from investigating any such

adjustment in rates, and any such adjustment shall take effect subject to change on any final order in any docket initiated to investigate VGS's rates, such order to take effect within thirty (30) of the final order in such docket.

6. Service Quality and Reliability Plan.

- a. VGS shall continue to comply with its existing Service Quality and Reliability Plan (the "SQRP").
- b. No later than December 31, 2005 SQRP shall be amended to add benchmarks for processing demand-side management rebate checks.

7. Demand-Side-Management ("DSM").

- a. During the term of this Plan, VGS agrees that it will maintain its budgeted expenditures for demand-side-management programs and services at least in the amount expended for fiscal year 2005-06 adjusted annually, at the time of the rate adjustment for which provision is made in Paragraph 5 of this Plan, to reflect increases in the rate of inflation.
- b. Should the cost-effectiveness of the programs decrease such that the budgeted expenditure level is no longer appropriate, VGS will advise the PSB and DPS of such changes in budgets and cost-effectiveness.

8. New Services.

- a. No later than January 31, 2006, VGS shall file tariffs offering interruptible services to large commercial and industrial customers, the intent being that customers having annual loads of less than 50,000 Mcfs per year shall

normally receive interruptible service under this tariff rather than under a special contract.

- b. No later than January 31, 2007, the Company shall file a pilot tariff that will provide to its firm tariffed-service customers the option of taking service that will fix the gas rate to be paid (per ccfs consumed) for a one-year term commencing on November 1 each year. Such fixed price service shall be offered for a minimum of two years. After the initial year and every two years thereafter, the Company shall evaluate the fixed price offering and file with the PSB and DPS its assessment of what modifications, if any, should be implemented. Participation shall limit the number of customers for which this service will be available initially to 30 percent of VGS's firm load and shall provide for sharing of revenues in excess of the costs incurred by the Company to provide this service among all firm customers.

9. Management of Gas Supply.

- a. Annually no later than July 1, during the term of this Plan, the Company shall file with the DPS and PSB its gas-supply plan for the gas year commencing on November 1 of that year (the "Gas-Supply Plan"), which plan shall also provide an overview of the Company's strategy for procuring, storing and selling in wholesale markets natural gas required to serve its customers over a three-year period.
- b. Quarterly, no later than the 15th day of February, May, August and November, during the term of this Plan, VGS shall provide notice to the

DPS and PSB of changes to any contracts for the supply, storage, transmission or hedging of its gas supply or exchange rates, including changes to any such contracts and the rates paid or positions taken thereunder.

- c. No later than May 1, 2006, VGS shall file with the DPS and PSB any proposed changes to its hedging strategy. Thereafter, the Gas-Supply Plan will also detail the Company's hedging plan for the gas year commencing on November 1 of that year and the ensuing three-years.

10. System Expansion.

- a. Annually no later than March 15 during the term of this Plan, VGS will meet with the DPS to discuss the investment made by the Company during the previous calendar year, including the cost, location and customer base therefor, to expand its system as well as the Company's preliminary plans for such investment in the current calendar year, including the cost, location and customer base therefor.
- b. Annually no later than October 30 during the term of this Plan but at least fifteen (15) days before VGS provides Annual Notice in accordance with Paragraph 5 hereof, VGS will meet with the DPS to present the expected adjustment to rate base and depreciation expense that will result from implementation of the Company's system-expansion plan for the current calendar year.